Materials Distribution

SPECIAL OPERATING AGENCY

Annual Report

FOR THE YEAR ENDING MARCH 31, 2000

MATERIALS
DISTRIBUTION
AGENCY

MATERIALS DISTRIBUTION AGENCY

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Advisory Board Members

Mr. Gerry Berezuk A/Deputy Minister, Manitoba Government Services	Chairman
Mr. Norm Fiske Partner, Sill & Co.	Member
Mr. Raymond West Retired Chairman of the Board A. E. McKenzie Co. Ltd.	Member
Mr. John Hosang Assistant Deputy Minister, Manitoba Highways	Member
Mr. F.A. (Al) Macatavish Vice-President, Transmission & Distribution, Manitoba Hydro	Member
Mr. Dan Thagard Staff Representative, Materials Distribution Agency	Member
Ms. Tracey Danowski A/Assistant Deputy Minister, Manitoba Government Services	Member (ex officio)
Mr. Don Katz A/Chief Operating Officer, Materials Distribution Agency	Member (ex officio)

Agency Management

Don Katz	A/Chief Operating Officer
Petra Berner-Krieger	Controller
Clif Eden	Marketing Coordinator
Robert Nicholls	Transportation Manager
Barry Kilberry	A/Warehouse Manager
Grant Cancilla	Equipment Manager
Robert Bryk	Inventory Manager
Ted Norrington	Assistant Controller

MINISTER OF HIGHWAYS AND GOVERNMENT SERVICES

Room 203
Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

June 25, 2000

His Honour Peter Liba
Lieutenant-Governor of Manitoba
235 Legislative Building
Winnipeg, Manitoba
R3C 0V8

May it Please Your Honour:

I have the privilege of presenting the Seventh Annual Report of the Materials Distribution Agency for the year ended March 31, 2000.

Respectfully submitted,

Steve Ashton
Minister Responsible for
the Materials Distribution Agency

Manitoba 2000
Our Past. Our Future. Our Celebration.
Notre passé. Notre avenir. Notre fête.

Manitoba

Deputy Minister of
Government Services

332 Legislative Building
Winnipeg, Manitoba, R3C 0V8

Telephone: (204) 945-4414
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June 23, 2000

The Honourable Steve Ashton
Minister Responsible for
Materials Distribution Agency
Highways and Government Services
Room 203 Legislative Building
Winnipeg MB R3C 0V8

Dear Mr. Minister:

I am pleased to submit for your consideration the Seventh Annual Report of Materials Distribution Agency (MDA) for the year ended March 31, 2000.

The 1999/2000 fiscal year was a period in which Materials Distribution Agency encountered significant change in the manner in which it performed its business. SAP altered the way in which line departments requested their orders. A new integrated management information system changed the way employees documented their activities. Finally, the Desktop Initiative was introduced to the Agency. Change was abound, yet the staff persevered to ensure that first and foremost its clients' needs were met. MDA's staff and management are to be commended on their continuing dedication and commitment to service excellence.

The Agency continues to recognize that a sound financial base is fundamental to its success in its competitive environment. This foundation is required to provide the funds to adopt new technologies and improve services. For this reason, MDA has identified clearly stated financial and performance objectives and is dedicated to their pursuit, and as its seventh year of operation demonstrated, the Agency successfully met most of its financial and operational goals and in many cases exceeded them.

The Agency's Advisory Board is sensitive to the challenges facing the management and staff of the Agency, and extends its appreciation to them for making 1999/2000 a successful year.

Respectfully submitted,

Gerry Berezuk
A/Deputy Minister and Chairperson of the
Materials Distribution Agency Advisory Board

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MATERIALS
DISTRIBUTION
AGENCY

1680 Church Avenue Winnipeg, Manitoba R2X 2W9

June 21, 2000

Foreword

It is with great pleasure that I present the Seventh Annual Report of Materials Distribution Agency (MDA).

MDA's seventh year demonstrates stability through significant change. The 1999/2000 fiscal year demanded a great deal from staff as a result of the introduction of three major system changes for the organization. Throughout this period the pride and determination of the MDA staff rose above difficult circumstances in order to deliver superlative customer service.

One of the changes was the installation of a year 2000 compliant integrated management information system. This system, which replaces three stand alone processes, will allow MDA to garner more comprehensive information than it had in the past and will allow the Agency to provide its customers with additional valued services.

The results reported in this document represent the concerted efforts of the management and staff of MDA, who have worked in partnership to make the Agency an energetic customer oriented organization providing high quality, cost-effective materials management services to the broader public sector.

The continued success of SOA's requires the support and understanding of government and other stakeholders. MDA management and staff would like to acknowledge the demonstrated interest, support and commitment of the Manitoba Government to the SOA concept.

Don Katz
A/Chief Operating Officer

A Special Operating Agency of Manitoba Highways and Government Services

I. Background

Materials Distribution was created in 1974 to provide centralized materials management services for government departments, boards, commissions and agencies. By taking advantage of economies of scale, the organization was established to provide government with lower overall costs in materials management. The Agency's mandate is to cost effectively meet the supply requirements of a wide spectrum of organizations within the broad public service, including Provincial, Federal and Municipal governments.

To further its pursuit in providing excellent service and dedicated attention to customer needs, the Materials Distribution Agency (MDA) was established as a Special Operating Agency (SOA) on April 1, 1993. The Agency is designated, and its Charter established in accordance with The Special Operating Agencies Financing Authority Act.

Conditions of financial restraint, socio-economic trends, rapid changes in the global economy, and increasing client expectations have caused governments to explore new and increasingly innovative program and service delivery solutions. The SOA concept reflects government's realization of the need to change to support:

- improved service to clients;
- increased latitude for innovation;
- empowerment of public servants;
- better management of people; and
- clearly defined accountability for results.

Special Operating Agencies are operational organizations within departmental structures which deliver services. The SOA operates under a Treasury Board and departmentally approved business plan. In addition, accountability relationships are defined by its Charter and Schedule of Delegated Authorities. These framework documents lay out target commitments for service levels and financial performance.

MDA has been accorded more direct responsibility for results, and management has received additional flexibility to make decisions affecting:

- staffing;
- capital investments;
- rate setting; and
- financial systems and accounting procedures.

II. Agency Structure

The day-to-day operations of the Agency are managed by the Chief Operating Officer, who reports directly to the Assistant Deputy Minister, Supply and Services Division of Government Services. The Chief Operating Officer provides plans and reports to the Agency's Advisory Board for review and to the Minister of Highways and Government Services and Treasury Board for final approval.

The current Advisory Board is chaired by the Deputy Minister of Government Services, with representation from both government and non-government bodies. The Assistant Deputy Minister and Chief Operating Officer are ex officio members of the Board.

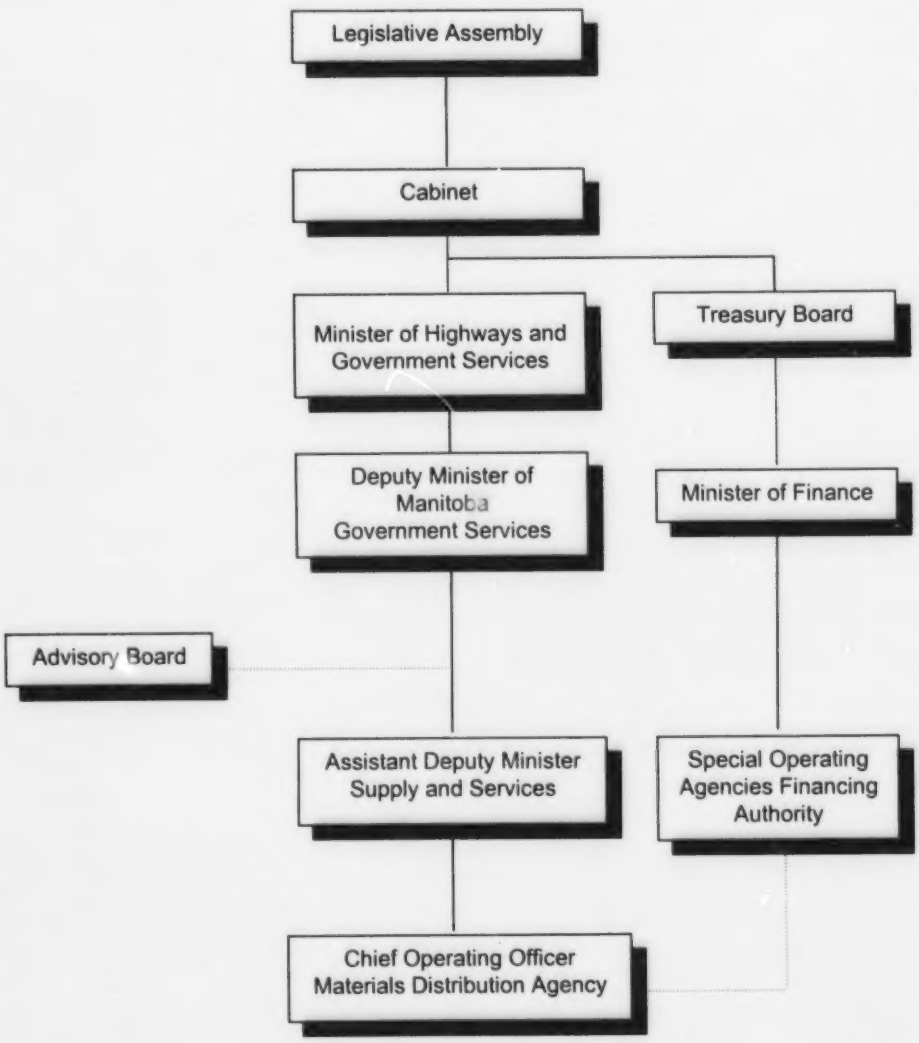
The Board consists of the following members:

- the Deputy Minister of Government Services;
- two client representatives;
- one Materials Distribution Agency staff representative; and
- two representatives from the private sector knowledgeable in private sector business practices and operating principles.

The Advisory Board adopts an "advisory" role in the affairs of the Agency versus one of decision-making. The primary role of the Board is to:

- offer advice on the Agency's strategic direction and objectives, performance, business practices, marketing strategies, and management and financial reporting requirements;
- review the Agency's quarterly financial reports, annual Business Plan, Annual Report and any proposed changes to the Agency Charter; and
- offer support regarding private, public and client sector issues and initiatives.

The accompanying chart identifies Materials Distribution's accountability within the established structure.



III. Mission

The Agency's mission as stated in its Charter is:

> ***To provide the Province of Manitoba and the broader public sector with excellent materials management services at the lowest possible cost and greatest value.***

Four founding principles support the Agency's mission:

- **Excellence in Customer Service**
- **Commitment to Teamwork**
- **Dedication to Continuous Improvement**
- **Flexibility to Meet Customer Needs**

IV. Goals and Objectives

The goal of the Agency as defined in its 1999/2000 Business Plan is:

> ***As the Supplier of Choice for the Province of Manitoba and the broader public sector, to provide our customers with superior service and best value pricing to meet their materials management expectations.***

The Agency is governed by the following six objectives defined in its Business Plan as follows:

- to provide customers with efficient and effective inventory, warehousing, transportation, storage and disposal services that offer superior service, outstanding selection and better value for money than they could otherwise achieve;
- to achieve financial and other performance targets as the Minister of Highways and Government Services may from time to time decide, through consultation with the Deputy Minister and Assistant Deputy Minister.

- to run operations, as far as practical, according to best business practices;
- to maintain and renew equipment and other assets, in light of changing operational needs, using appropriate methods of investment appraisal and to improve utilization of the assets wherever practicable;
- to follow best public and private sector employment practices and to improve staff involvement, to the greatest degree practicable, in all aspects of operations; and
- to continually assess policies, programs and procedures in relation to its overall effectiveness in meeting the changing needs and expectations of customers.

Operating goals and objectives may change from year to year as objectives are met and new initiatives become important. The Agency is dedicated to a policy of continuous performance improvement.

V. Products and Services

Materials Distribution offers a number of material support services. The backbone of the operation, and its largest revenue source, is from the sale of stocked commonly-used items. Eight distinct commodities were offered in 1999/2000 including stationery and office supplies, janitorial supplies, laboratory, x-ray, ultrasound and ECG supplies, home care, public health, and reproductive health supplies, office furnishings and furniture, and computer software. Specific item counts for each commodity line are listed below:

Commodities	*1999/2000 Line Items*
Stationery and Office Supplies	***1,000***
Janitorial Supplies	***300***
Laboratory, X-ray, Ultrasound and ECG Supplies	***400***
Home Care Supplies	***610***
Public Health Supplies	***120***
Reproductive Health Supplies	***40***
Office Furnishings and New Furniture	***230***
Computer Software	***1,450***
Total Line Items	***4,150***

In addition, the Agency offers several other materials management services including:

- ***Equipment Rental, Service and Repair***

  The Agency handles over 19,500 individual pieces of 47 different types of home care equipment, which are distributed to over 30,000 clients across the Province. Service and repair of 3,000 individual pieces of 88 different types of office equipment are also provided to over 2,200 government clients.

- ***Transportation, Moving and Office Relocation Services***

  The Agency provides government departments, boards, commissions and agencies with material and equipment moving and transportation services, including the relocation of offices across the Province.

- ***Storage Services***

  Warehouse storage services are offered to provide clients with secure storage facilities for items not required on a daily basis.

- ***Disposal Services***

  The Agency also provides disposal services for material and equipment that is no longer required by the Province. Usable materials are circulated and redistributed to other government departments while items that have no further use are sold by tender or auction or are sent to a recycling company.

VI. Performance Targets

In its 1999/2000 Business plan, the Agency defined a number of performance targets for the year. These targets, as listed below, set achievement levels for the Agency in a number of areas including, its financial objectives, productivity levels and marketing strategies. Achievement of targets was monitored by management on a regular basis, and appropriate adjustments to operations were implemented as required to achieve the set targets.

A) 1999/2000 Performance Targets

Performance Goals for 1999/2000 include:

1. One-Stop Shopping Option to Broader Public Sector

Target: ***Maintain a centralized organization allowing one-stop purchasing and warehousing of many diverse product lines.***

Performance to Target: Achieved

	Measures/ Performance Indicators	Baseline Year **Actual** (1994/95)	Previous Year's **Actual** (1998/99)	Report Year **Target** (1999/2000)	Reporting Year **Actual** (1999/2000)	Long-term **Target**
Input Measures	# of Clients	1,700	2,300	2,400	2,200	2,500
	# of inventory items	3,987	3,930	3,800	4,150	3,500
Activity Measures	# of new products - on a monthly basis	6	8	8	8	8
	Frequency of mailing - Catalogues	Annual	Annual	Annual	Annual	Annual
	Frequency of mailing - Flyers	Monthly (12 issues)	Monthly (12 issues)	Monthly (12 issues)	Monthly (11 issues)	Monthly (12 issues)
Output Measures	# of Sales Invoices	N/A	84,944	84,750	82,650	90,000
Outcome Measures	Cost savings in reduction of cheque cutting	Minimum $26.00 per cheque vs $6 per ITV - savings of $20/transaction	Cheque vs. ITV savings of $20 per transaction	Not available due to change in government processes with implementation of SAP	Not available due to change in government processes with implementation of SAP	Not available due to change in government processes with implementation of SAP

The Agency continually expands its product offering to allow clients the opportunity to source one vendor for their commonly used supplies. As customer requirements are ever changing, the Agency strives to add new products monthly, which is crucial for long term success. New items advertised in the ***New Product News*** flyer and annual catalogue within the furniture, stationery and janitorial product lines, in addition to, new medical, ostomy and equipment results in the Agency achieving its target.

2. *Stocked Response Rates*

Target: ***Maintain average stocked response rates to greater than 99% of all items carried.***

Performance to Target: Not Achieved

	Measures/ Performance Indicators	Baseline Year **Actual** (1994/95)	Previous Year's **Actual** (1998/99)	Report Year **Target** (1999/2000)	Reporting Year **Actual** (1999/2000)	Long-term **Target**
Input Measures	# of inventory items	3,987	3,930	3,800	4,150	3,500
	Value of inventory on hand	$1,236	$1,759	$1,750	$1,548	$1,850
	Cost of goods sold warehouse only items	N/A	$7,533	$8,144	$8,102	$11,000
	Warehouse space available		47,647	47,647	47,647	47,647
Activity Measures	# of Receivings processed	N/A	15,796	16,000	9,820	14,500
	# times inventory turns	5	6	7.5	5	8
Output Measures	Stocked Response Rate	97.00%	99.00%	99.00%	98.50%	99.75%
Outcome Measures	Client satisfaction, having product available when required	Client survey indicates MDA carries products they need	99% stocked rate allows clients to receive product when they require	99% stocked rate allows clients to receive product when they require	Stocked rate reduced with system changes, survey to be conducted to determine affect	99.75% stocked rate ensures clients receive product when they require

The Agency pays significant attention to minimizing its out-of-stock incidents, in an effort to decrease potential back orders. Daily reports are run at the start of the day to monitor the number of items out of stock. These daily ratings are then totalled on a monthly basis, and the average of these monthly rates is calculated to determine the Agency's in-stock rate. In 1999/2000, the Agency was able to achieve an average of greater than 98% of items in-stock.

This value was not as high as previous years due to:

- Shortage of product, at times, in the marketplace for product due to Year 2000 concerns;
- Conversion of data in preparation of new system; and
- Implementation of a new inventory control computer system.

The Agency turned its inventory more than five (5) times in 1999/2000.

3. Turnaround Time

Target: ***Maintain an average two (2) business day turnaround for 97% of urban orders and an average four (4) business day turnaround for 97% of rural orders.***

Performance to Target: Not Achieved

	Measures/ Performance Indicators	Baseline Year **Actual** (1994/95)	Previous Year's **Actual** (1998/99)	Report Year **Target** (1999/2000)	Reporting Year **Actual** (1999/2000)	Long-term **Target**
Input Measures	Value of inventory on hand (000's)	$1,263	$1,759	$1,750	$1,548	$1,850
	# of orders received	N/A	84,944	85,000	82,650	90,000
Activity Measures	# of orders processed	N/A	84,944	85,000	82,650	90,000
	# of orders shipped	N/A	84,944	85,000	82,650	90,000
Output Measures	Turnaround time for orders - rural (days)	5	5	4	5	3
	Turnaround time for orders - urban (days)	3	2	2	3	1
Outcome Measures	Increased client satisfaction Reduction in client "stockpiling"	Client survey indicate current delivery meets their needs	Reduction to urban delivery time reduces the requirement for clients to carry additional product inventory	Reduction to rural delivery time reduces the requirement for clients to carry additional product inventory; while maintaining urban delivery standard	Short term increase to both urban and rural delivery times due to internal system process changes, MDA to conduct client survey to determine affect to client satisfaction	Improved system processes to reduce delivery times improving client service

The implementation of a new financial and inventory control system during the third quarter resulted in a short-term disruption to normal service levels. It is expected that with further development and enhancements to the system this value will diminish.

For the Home Care program, the Agency places the fulfilment of these orders in high priority and fills a significant number of these orders on a same day basis due to the very immediate needs that clients have for medical, ostomy supplies and equipment. Use of expedited shipping methods, available pick up service, and the implementation of an evening and weekend shift contribute to maintaining effective turn around times.

4. Best Value Pricing

Target: ***Offer the appropriate product and service at the best value pricing through economies of scale buying.***

Performance to Target: Achieved

	Measures/ Performance Indicators	Baseline Year **Actual** (1994/95)	Previous Year's **Actual** (1998/99)	Report Year **Target** (1999/2000)	Reporting Year **Actual** (1999/2000)	Long-term **Target**
Input Measures	# of Competitor Catalogues reviewed	1	3	3	3	4
	Cost of Goods Sold	$5,190	$16,293	$13,314	$14,706	$16,000
	# of Clients	1,700	2,300	2,400	2,200	2,500
	# of Inventory items	3,987	3,930	3,800	4,150	3,500
Activity Measures	% Discount to SAP clients	0%	0%	5%	5%	5%
	Rebate to RHA clients (% of RHA sales)	0%	1.0%	1.6%	1.0%	1.7%
	Gross Profit % achieved	20.9%	20.3%	19.6%	22.2%	25.0%
	% Provincial clients of total clients	95%	81%	80%	80%	75%
Output Measures	Sales volume discounts to RHAs	$0	$62	$148	$67	$135
	Sales volume discounts to qualifying Provincial clients	$0	$0	$326	$133	$150
Outcome Measures	Cost savings to clients	$0	$62	$474	$200	$285
	Retention of clients/customer loyalty	Client survey indicates loyalty	Discount effective in retaining RHA clients in optional environment	Discount provides incentive to remain loyal to Agency, customer numbers increase	Significant savings to clients, MDA to conduct client survey to determine loyalty	Continued savings to clients rewarding loyalty

With the implementation of SAP throughout Provincial departments and the creation of MDA's outline agreements within SAP, the Agency introduced its cost savings program for SAP clients in 1999/2000 providing savings of $133.0.

6. *Financial Target*

Target: ***Program's financial performance is consistent with expected results, as indicated in 1999/2000 Business Plan.***

Performance to Target: Exceeded

	Measures/ Performance Indicators	Baseline Year **Actual** (1994/95)	Previous Year's **Actual** (1998/99)	Report Year **Target** (1999/2000)	Reporting Year **Actual** (1999/2000)	Long-term **Target**
Input Measures	Net Income	$105	$1,494	$280	$719	$635
	# of Orders received	N/A	84,944	85,000	82,650	90,000
	Sales	$6,573	$20,436	$17,144	$18,898	$18,500
Activity Measures	% discount to SAP Clients	0%	0%	5.0%	5.0%	5.0%
	Gross Profit achieved	20.9%	20.3%	19.6%	22.2%	25.0%
	% Rebate to RHA clients	0%	1.0%	1.6%	1.0%	2.0%
Output Measures	Retained Earnings (000's)	$48	$1,636	$2,576	$2,930	$4,000
Outcome Measures	Revenue Sharing Distribution	$0	$200	$200	$200	$300
	Debt repayment	$0	$430	Debt Free	Debt Free	Debt Free

The continual growth in the Health market has resulted in the Agency exceeding its forecasts for both sales and net income for 1999/2000.

B) Future Opportunities and Marketing Initiatives

Health Markets

Opportunities continue to arise within the health area, particularly with the increased emphasis on community based care. The Agency has experienced growth in almost all health markets, and anticipates that this growth will continue throughout the next year as more personal care homes, public health offices and hospitals access a wider variety of products and services through the Agency.

Health Equipment and Supplies to other Provincial Departments

Representatives of Manitoba Family Services and Housing, as well as, Manitoba Education and Training have approached the Agency to explore opportunities in the provision of medical equipment and supplies to their clients. It is anticipated that there would be significant savings in their capital expenditures and administrative expenses through utilizing the Agency's existing infrastructure.

Web Site Development

To better communicate with its clients, the Agency is near completion of a web site to be published on the Provincial Intranet. Pertinent information, such as product and services listing, staff directory, on-line flyer and organization news will be available to clients. Future development of the site would include e-commerce software to link with SAP resulting in the client placing the order and the Agency receiving order information electronically.

VII. Human Resources

The 1999/2000 year was another significant year in the history of the Agency as it tackled the new challenges associated with the implementation of a new computer system (Great Plains Dynamics) and the transition to the Desktop Services' managed environment. The successful implementation of both these projects is a testament to the willingness of Agency staff to meet new opportunities with energy and enthusiasm while at the same time maintaining and improving service provision to existing customers.

The Agency's success in this year of continuing change and growth must be attributed to each and every member of the staff. Through their hard work and dedication, the Agency exceeded many, and met most of its operating goals. The dedication, professionalism and enthusiasm demonstrated by Agency personnel is to be commended, as despite all else, the needs of the client were always at the forefront.

Together with teamwork, semi-monthly management meetings, and the continuation of management's open-door policies have all contributed to maintaining positive staff morale in the continuing climate of change and growth.

VIII. Financial Results

Highlights of the 1999/2000 financial results are given below:

	1999/2000 ($000's)	***1998/1999*** ($000's)
Total Revenue	***18,898***	***20,436***
Cost of Goods Sold	14,706	16,278
Salaries	1,983	1,761
Pension Benefits Expense	195	103
Operating Expenses	349	331
Administrative Expenses	937	429
Interest, Long Term Debt	0	26
Income from operations	***728***	***1,526***
Loss on disposal of assets	(9)	0
Net Income	***719***	***1,526***
1999/2000 Revenue Sharing Contribution	***200***	***200***

On a basis consistent with the Agency's goals, excess revenues were used by the Agency to repay debt amounts, finance capital expenditures and reduce further working capital requirements.

The Agency purchases items in large volumes and resells these items in smaller quantities on a full cost recovery basis. An administrative percentage mark-up is added to the unit cost of each item to cover the costs to purchase, inventory, warehouse and handle goods.

As a Special Operating Agency, the financial statements of MDA have been prepared in accordance with generally accepted accounting principles using the accrual method whereby all revenues and costs of operation have been accrued.

Total Revenue:	***1999/2000*** ($000's)	***1998/1999*** ($000's)
Inventoried Sales		
Stationery	1,981	2,241
Forms	285	372
Medical Laboratory & X-ray	1,941	1,712
Janitorial	657	622
Reproductive Health	328	322
Furnishings	120	141
Medical Supplies	3,088	2,755
Ostomy Supplies	1,344	1,238
Medical Equipment Consumables	97	79
Office Equipment Consumables	140	383
Software & Computer	2,156	1,870
Miscellaneous	46	44
	12,182	***11,779***
Direct (Factored Sales)		
Stationery	641	693
Medical	218	213
Furnishings	0	54
Janitorial	218	229
Furniture	1,329	2,781
	2,405	***3,970***
Other Revenue		
Home Oxygen Contract	281	1,084
Home Care Equipment Rental	1,618	987
Office Equipment - copy centres	800	791
Office Equipment - maintenance program	249	608
Disposals	37	32
Moving and Freight	943	902
Storage	73	45
Used Furniture	19	42
Miscellaneous	221	102
Interest	70	94
	4,311	***4,687***
	$18,898	***$20,436***

Inventory & Direct (factored) Sales

Increases in health related products offset significant reductions in new furniture purchases and slight decreases in stationery items.

Other Revenue

The Agency continues to provide other related services at levels equal to the previous fiscal year that included disposal, moving and storage as well as the sale of used furniture.

The Agency has established these services as revenue centres against which all direct costs have been charged other than salaries and benefits and minor administrative costs.

- *Home Oxygen Contract*

  As of June 30, 1999, the Agency no longer administered the home oxygen contract on behalf of the Regional Health Authorities.

- *Home Care Equipment Rental*

  Increases to home care equipment rental reflect the continual growth of the program and requirement for additional pieces to support the demand.

- *Office Equipment - maintenance program*

  Decreases to office equipment - maintenance program, reflects the success of the Desktop Services initiative reducing the reliance on out-of-date, expensive to maintain equipment.

- *Moving and Freight*

  Increases in moving and freight reflect the increased number of orders processed in addition to a number of large government office relocations throughout the year.

FINANCIAL STATEMENTS

MATERIALS DISTRIBUTION AGENCY

Financial Statements

For The Year Ended March 31, 2000

(In Thousands)

Materials Distribution Agency
An Agency of the
Special Operating Agencies Financing Authority
Province of Manitoba
Responsibility of Financial Reporting

The Agency's management is responsible for preparing the financial statements and other financial information in the Annual Report. This responsibility includes the integrity and objectivity of financial data and the presentation of the Agency's financial position and results of operations in accordance with generally accepted accounting principles. The financial statements have been audited by The Exchange Group, independent external auditors.

The Agency maintains a system of internal controls throughout its operation that provides reasonable assurance that transactions are authorized, properly recorded and reported, and that assets are safeguarded.

The Advisory Board has scheduled meetings with management to review accounting practices, financial reporting and to discuss audit results. The auditors have free and full access to this Board, to discuss the results of the audit and their views on the adequacy of internal controls and the quality of financial reporting.

Don Katz
A/Chief Operating Officer

Petra Berner-Krieger
Controller

June 23, 2000

THE EXCHANGE

chartered accountants

AUDITORS' REPORT

To the Special Operating Agencies Financing Authority

We have audited the balance sheet of Materials Distribution Agency, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2000 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2000 and the results of its operations and changes in cash flow for the year then ended in accordance with generally accepted accounting principles.

THE EXCHANGE

chartered accountants

Winnipeg, Manitoba
June 23, 2000

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MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

BALANCE SHEET
(In Thousands)
AS AT MARCH 31, 2000

ASSETS

	2000	1999
CURRENT		
Cash and short-term investments	$1,112	$4,724
Investments – pension related	529	333
Accounts receivable	3,086	1,441
Accounts receivable – Province of Manitoba (note 9)	300	363
Inventories (notes 2 and 3)	1,548	1,759
Prepaid expenses	61	16
	6,636	8,636
CAPITAL ASSETS (notes 2 and 4)	723	949
OTHER ASSETS (notes 2 and 5)	757	75
	$8,116	$9,660

LIABILITIES

CURRENT		
Payables and accruals (note 6)	$2,690	$4,828
PENSION LIABILITY (note 2)	529	333
SEVERANCE LIABILITY (note 9)	236	323
	3,455	5,484

EQUITY

CONTRIBUTED EQUITY (note 7)	1,246	1,246
RETAINED EARNINGS	3,415	2,930
	4,661	4,176
	$8,116	$9,660

Commitments (note 8)

See Accompanying Notes To Financial Statements

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

STATEMENT OF INCOME AND RETAINED EARNINGS
(In Thousands)
YEAR ENDED MARCH 31, 2000

	2000	1999
SALES, schedule 1	$18,898	$20,436
COST OF GOODS SOLD	14,706	16,261
GROSS PROFIT	4,192	4,175
EXPENSES		
Salaries	1,983	1,760
Pension benefits expense	195	103
Operating costs, schedule 2	349	331
Administrative expenses, schedule 2	937	429
Interest expense, long-term debt	0	26
	3,464	2,649
INCOME FROM OPERATIONS	728	1,526
LOSS ON DISPOSAL OF ASSETS	(9)	0
NET INCOME	719	1,526
99/00 REVENUE SHARING – PROVINCE OF MANITOBA	(200)	(200)
CONTRIBUTION TO COMMUNITY AND OTHER GOVERNMENT PROGRAMS	(34)	(32)
RETAINED EARNINGS, beginning of year	2,930	1,636
RETAINED EARNINGS, end of year	$ 3,415	$ 2,930

See Accompanying Notes To Financial Statements

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

STATEMENT OF CASH FLOW
(In Thousands)
YEAR ENDED MARCH 31, 2000

	2000	1999
Cash payments		
Purchase of capital assets	$ (429)	$ (623)
Purchase of other assets	(841)	0
Long term debt, payment	0	(430)
Revenue sharing - distribution	(200)	(200)
Contribution to community & other gov't programs	(34)	(32)
Cash receipts		
Cash (deficit) generated from operations, net	(2,110)	4,122
Long term debt, advance	0	44
Contributed equity	0	44
Working capital, beginning of year	4,726	1,801
Working capital, end of year	$ 1,112	$ 4,726

See Accompanying Notes To Financial Statements

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2000

1. NATURE OF ORGANIZATION

The Government of Manitoba established a central warehouse operation in 1974. Its mandate was to cost effectively meet the supply needs of departments and certain boards, commissions and agencies of the Crown, for a variety of commonly-used items.

Effective April 1, 1993, Materials Distribution Branch was designated as a Special Operating Agency pursuant to The Special Operating Agencies Financing Authority Act, Cap. S185, C.C.S.M. and operates under a charter approved by the Lieutenant Governor in Council.

The Agency is financed through the Special Operating Agencies Financing Authority (SOAFA). The Financing Authority has the mandate to hold and acquire assets required for and resulting from the Agency operations. It finances the Agency through repayable loans and working capital advances. This financial framework enables the Agency to operate in a business like manner according to public policy expectations.

A Management Agreement between the Financing Authority and the Minister of Highways and Government Services assigns responsibility to the Agency to manage and account for the Agency related assets and operations on behalf of the Financing Authority.

The Materials Distribution Agency continues to be part of Manitoba Government Services under the general direction of the Assistant Deputy Minister, Supply and Services Division, and ultimately the policy direction of the Deputy Minister and Minister.

The Materials Distribution Agency remains bound by relevant legislation and regulations. It is also bound by administrative policy except where specific exemptions have been provided for in its charter in order to meet business objectives.

The Financing Authority is economically dependent on the Province of Manitoba and the Manitoba Regional Health Authorities, deriving most of its revenue from these two sources. The Province provides all of the capital financing.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Reporting

The financial statements of the Agency are presented in accordance with generally accepted accounting principles.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Capital Assets

Capital assets are recorded at cost and are amortized annually at the following rates and basis:

Computer equipment	- 20%, straight-line basis
Fixtures	- 20%, straight-line basis
Office equipment	- 20%, diminishing balance basis
Rental equipment	- 20%, diminishing balance basis
Warehouse equipment	- 20%, diminishing balance basis
Leasehold improvements	- over 5 years, straight-line basis

Assets that relate to the transfer of the Home Care Equipment and Supplies Program are recorded at cost and are amortized at accelerated rates as follows:

Computer equipment, accelerated	- 33%, straight-line basis
Fixtures, accelerated	- 33%, straight-line basis
Office equipment, accelerated	- 33%, straight-line basis
Warehouse equipment, accelerated	- 33%, straight-line basis
Leasehold improvements, accelerated	- over 3 years, straight-line basis

Non-consumable equipment relating to the Home Care Equipment and Supplies Program are amortized at varying rates in order to reflect the varying periods of useable "life".

Rental equipment	- over 2, 3 or 5 years, straight-line basis

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Other Assets

Other assets are recorded at cost and are amortized at the following rates on a straight-line basis:

Computer conversion	- over 5 years
Computer conversion, accelerated	- over 3 years

Pension Liability

Employees of the Materials Distribution Agency are eligible for pensions in accordance with provisions of The Civil Service Superannuation Act. In accordance with an agreement with the Province of Manitoba, Special Operating Agencies (SOA's) are only responsible for the pension liability incurred for their employees from the date of designation as an SOA. The Materials Distribution Agency is recording this obligation effective for the year ended March 31, 1998. The methodology for calculating the liability has been determined in conjunction with the Province which accepts responsibility for pension liability for prior service, as well as for any variance resulting from the calculation.

3. INVENTORIES

	2000	1999
Medical, Lab & X-ray supplies	$ 240	$ 356
Reproductive health supplies	69	91
Medical supplies	488	376
Ostomy supplies	190	228
Equipment consumables	12	28
	999	1,079
Stationery	334	369
Forms	92	140
Janitorial	94	129
Furnishings	21	23
Used furniture	5	0
New furniture	3	5
Office equipment consumables	0	11
Software and computer supplies	0	3
	$ 1,548	$ 1,759

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

NOTES TO FINANCIAL STATEMENTS
(In Thousands)
MARCH 31, 2000

4. CAPITAL ASSETS

	Cost	Accumulated Amortization	2000 Net	1999 Net
Computer equipment	$ 39	$ 4	$ 35	$ 2
Fixtures	39	31	8	9
Office equipment	27	17	10	14
Rental equipment	0	0	0	1
Warehouse equipment	90	44	46	58
Leasehold improvements	133	71	62	89
	328	167	161	173
Accelerated				
Computer equipment	48	48	0	25
Fixtures	63	50	13	34
Office equipment	22	20	2	10
Warehouse equipment	61	40	21	31
Leasehold improvements	120	98	22	61
	314	256	58	161
Home Care equipment	1,349	845	504	615
	$ 1,991	$ 1,268	$ 723	$ 949

5. OTHER ASSETS

	Cost	Accumulated Amortization	2000 Net	1999 Net
Computer conversion	$ 841	$ 84	$ 757	$ 0
Computer conversion, accelerated	155	155	0	75
	$ 996	$ 239	$ 757	$ 75

6. WORKING CAPITAL PAYABLE

The Agency has an authorized line of working capital of $800.0 of which $0.0 was used at March 31, 2000.

7. CONTRIBUTED EQUITY

Loan Authority – April 1, 1993

The Special Operating Agencies Financing Authority (SOAFA) and the Manitoba Provincial Government entered into a Transfer Agreement respecting the transfer from Manitoba to the Financing Authority of inventory and fixed assets valued at $1,464 required for the continuing operations of the Materials Distribution Agency as at March 31, 1993. The Agency repaid the debt portion of $732 (being ½ of the value of the assets) and recorded the balance, $732, as Manitoba's equity in the Financing Authority as related to the Agency operations.

Loan Authority – April 1, 1997

SOAFA and the Manitoba Provincial Government entered into a Transfer Agreement respecting the transfer from Manitoba to the Financing Authority for the net assets of the HCESP valued at $1,027 as at April 1, 1997. The Agency repaid the debt portion of $514 (being ½ of the value of the assets) and recorded the balance, $513, as Manitoba's equity in the Financing Authority as related to the Agency operations.

8. COMMITMENTS

Leased Premises

The Agency has entered into a master lease agreement with the Province of Manitoba for rental of facilities at 1680 Church Avenue, Winnipeg, Manitoba, which expires on March 31, 2002. Occupancy charges are $215 payable in semi-annual payments of $107.

The Agency has entered into an ancillary lease agreement directly with the landlord for rental of 8,500-sq. ft. at 1660 Church Avenue, Winnipeg, Manitoba, which expires on March 31, 2002. Occupancy charges are $31 payable in monthly payments of $3.

The Agency has also obtained 5,790-sq. ft. at 1678 Church Avenue, Winnipeg, Manitoba, wherein the Landlord has entered into an ancillary lease agreement directly with the Agency, which expires on March 31, 2002. Occupancy charges are $17 payable in monthly payments of $2.

8. COMMITMENTS, continued

Desktop Management Initiative (DMI)

Costs related to leased computer assets, network (PDN) and user fees (SAP, MEBS & WAN) within the Province's managed environment are projected over the next five years:

Fiscal Year	# Units	$
2000/01	41	254
2001/02	42	279
2002/03	43	293
2003/04	44	307
2004/05	45	323

9. SEVERANCE LIABILITY

Effective April 1, 1998 the Agency is recording accumulated severance pay benefits for its employees. Severance pay is determined by multiplying years of service, to a maximum of fifteen years, by the weekly salary at date of retirement, provided the employee reaches nine years of service and retires from the Agency. The estimate is based upon the method of calculation set by the Province of Manitoba.

The Province has accepted responsibility for the severance benefits accumulated by the Agency's employees to March 31, 1998. Accordingly, the opening severance pay liability balance as at April 1, 1998 of $254 has been completely offset by a receivable from the Province. There are no terms of repayment for this receivable, and the amount will remain fixed.

10. PUBLIC SECTOR COMPENSATION DISCLOSURE

It is a requirement of The Public Sector Compensation Disclosure Act that annual public disclosure be made of individual compensation in an amount exceeding $50 annually to any officer or employee of the Agency. For the year ended March 31, 2000, the following employees received compensation in excess of $50.

Name	Position	2000	1999
Tracey Danowski	Chief Operating Officer	$ (*)	$ 65
Don Katz	A/Chief Operating Officer	$ 61	$ N/A
Petra Berner-Krieger	Controller	$ 59	$ 51

(*) In excess of $50 but the pro rata earned while at the Agency was less than the threshold.

11. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized system use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

12. COMPARATIVE FIGURES

Comparative figures from the previous year have been reclassified to conform with the current year's financial presentation.

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

SCHEDULE OF SALES
(In Thousands)
YEAR ENDED MARCH 31, 2000

	2000	1999
Warehoused Items		
Medical, Lab & X-ray	$ 1,941	$ 1,712
Medical forms	81	123
Reproductive	328	322
Medical supplies	3,088	2,755
Ostomy supplies	1,344	1,238
Equipment consumables	97	79
	6,879	6,229
Stationery	1,981	2,241
Forms	204	249
Janitorial	657	622
Furnishings	120	141
Office equipment consumables	140	383
Software and computer supplies	2,160	1,870
Miscellaneous	47	44
	12,188	11,779
Direct (factored sales)		
Stationery	641	693
Medical, Lab & X-ray	218	213
Janitorial	218	229
Furniture, new	1,328	2,781
Furnishings	0	54
	2,405	3,970
Other Revenue		
Oxygen contract	275	1,084
Home Care equipment rentals	1,618	987
Office equipment – copy centres	800	791
Office equipment – maintenance program	249	608
Used furniture	19	42
Disposal	37	32
Moving and freight	943	902
Storage	73	45
Interest	70	94
Miscellaneous	221	102
	4,305	4,687
TOTAL REVENUE	$18,898	$20,436

MATERIALS DISTRIBUTION AGENCY
(An Agency of the Special Operating Agencies Financing Authority - Province of Manitoba)

SCHEDULE OF EXPENSES
(In Thousands)
YEAR ENDED MARCH 31, 2000

	2000	1999
OPERATING COSTS		
Freight and travel	$ 5	$ 5
Occupancy	311	302
Maintenance and supplies	33	24
	$ 349	$ 331
ADMINISTRATIVE		
SOAFA fees	$ 2	$ 2
Audit and legal fees	7	10
Amortization	307	198
Bad debts	102	32
Computer	380	57
Office	46	61
Promotion and marketing	40	44
Telephone	16	23
Training and education	37	2
	$ 937	$ 429